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CENTRAL INTELLIGENCE AGENCY

INFORMATION REPORT

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5. The Chinese Communists, who are now attempting to bribe Nationalist officials and war lords in Szechuan Province, will soon attempt to take Szechuan and then drive on to Yunnan Province before attacking Canton.\*\*\*
6. Since approximately 1 July 30 ships (unidentified) of various sizes have transported from Dairen to Tsingtao materials and machinery needed by Communists for building and repairing ships.
7. The Communists are now attempting to repair all naval and ship building installations and all damaged naval vessels in the Tsingtao area. Former Kuomintang naval schools in the Tsingtao area are being reopened, and former Kuomintang naval personnel who defected or were captured are being used as instructors under Communist supervision.

**BY CABLE**

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
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\*\*\*  Comment. This attempt will probably be made for the following reasons:

- a. Szechuanese Communist General LIU Po-cheng is anxious to capture Szechuan.
- b. Yunnanese troops now with LIN Piao in North China are waiting to be used in an attack against Yunnan.
- c. If Szechuan is taken, the Communists will have complete control of the Yangtze River, and Northwest China will be isolated from the rest of Nationalist-occupied China.
- d. Floods in Central China are preventing the southward advance of Communist troops.

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